**Clip-On, Inc.**

**Teaching Note**

#### Purpose of Case

This case is that of a start-up company, promoted by three young entrepreneurs, who are recent graduates. They had managed to impress an angel start-up investor in a preliminary presentation at a start-up fair but now are required to carry out a detailed analysis and present a report to this investor. Formulating a competitive strategy, setting up KPIs and applying/analyzing cost-volume-profit concepts are examined in-depth, in this case.

#### Suggested Assignment Questions

1. In your view what should be Clip-On’s overall competitive strategy to market the three products as a start-up unit?
2. What KPIs should the young entrepreneurs set for this young start-up unit?
3. What is the break-even point in units for the three products that Clip-On intends to market for the years 2020-2024 (both inclusive)?
4. For the year 2020, what could be the lowest selling price for each of the three products that Clip-On could offer, to be able to just break-even?
5. What is the margin of safety in units and as a percent of projected sale of units in the first year of operations (2020)? What are your views on the margin of safety so calculated?
6. What other factors could affect your projections and where should you be seeking data/information to alleviate this concern?
7. Will this investment meet Shrav’s ROI objective? What may be some of the areas of concern?

#### Case Analysis

1. **Company Background and critical examination of issues/assumptions**

It is suggested that the case discussion be initiated by elaborating on the company’s background and also critically examining some of the assumptions. Some noteworthy points are:

* + Clip-On is a start-up initiated by bright young entrepreneurs with a portfolio of skills in Technology (Hardware/Software), Bio-medical engineering and Accounting.
  + The product that they had patented had gone through sound research and testing. It was also published in a reputable journal and was widely referenced and quoted.
  + However, it appears that they have also used the same study to make some marketing (product pricing/design) and possibly consumer behavior inferences. The soundness of such an approach needs a closer look. Also, they do not seem to have a marketing expert in the team, which may be a short coming.
  + The assumption that user penetration rate increases at 20% per year over the next 5 years, year on year, needs to be closely examined
  + Similarly, the assumption that the 20% growth rate will also uniformly take place in the three (age-wise) distributed market segments need a closer review and examination.
  + Also, the basis of the three market share acquisition scenarios (60%, 40% and 20%) and the estimated probabilities (25%, 55% and 20%), needs a closer investigation.
  + Although the possibility of cost of electronic input materials going down is high in this industry, and taking a conservative view is commendable by maintaining the costs over the five-year period projection, this may also require a ‘what-if’ type of analysis to look in to the possibility of costs escalating.
  + If costs tend to decrease, it is not clear on what basis Clip-On has projected a selling price increase over the five-year period.
  + More granularity needed about the fixed costs.

1. **Assignment questions discussion**

Once the company background and critical assumptions are examined, the following assignment questions may be discussed. Some of these questions have a numerical element and others require a descriptive response.

1. **In your view what should be Clip-On’s overall competitive strategy to market the three products as a start-up unit?**

Answering this question requires an understanding of the concepts in Chapter 1 of the Blocher text. It is not clear of Clip-On wishes to pursue a ‘Cost Leadership’ or ‘Differentiation’ strategy. Preliminary analysis should indicate a type of ‘differentiation’ strategy based on the following two factors:

* Focused segments based on age-groups to market the product
* Unique innovative product and features

However, the pricing strategy seems to indicate a discounted approach, which is a feature of the cost-leadership strategy. Is there a ‘strategic’ confusion here?

The question also seeks a response on what strategy might be best suitable. Students may come with suitable responses (Cost Leadership or Differentiation or a combination) with appropriate rationale. There is also a research opportunity here to look up at published work on startup company strategies and what succeeds or fails.

1. **What KPIs should the young entrepreneurs set for this young start-up unit?**

Here again is a good research opportunity to look at published studies. Commonly, other than the regular KPIs on growth (Revenue, Orders, Customers, Production, etc.) (profitability (Gross/net margin, ROI, etc.) and efficiencies (Inventory turnover, Receivables TO, Asset TO, etc.) here are some unique ones for start-ups.

* Cost of acquiring a new customer (marketing and promotional costs)
* Estimated lifetime value of a customer
* Net Cash flows on a monthly or other periodical basis
* Cash buffer in terms of months. This can be calculated dividing the Cash reserves by the net cash outflows
* App traffic – since the company intends to combine an App with the product, this indicator will reveal the level of customer or potential customer engagement
* Product returns – This will signal product performance and quality issues
* Social media traffic
* Employee satisfaction/retention

The above list is not exhaustive, the company could come up with a unique set of KPIs that may be more relevant or suitable.

1. **What is the break-even point in units for the three products that Clip-On intends to market for the first 3 years of operation (2020-2022)?** **What may be your conclusions based on your calculations?**

Please refer to the attached Excel file for calculations.

One main conclusion is the need to have a ‘what if’ approach and calculate the break-even point for different selling price and Variable/Fixed cost scenarios.

1. **For the year 2020, what could be the lowest selling price for each of the three products that Clip-On could offer so as to be able just break-even? How do you view this as compared to the current selling prices?**

Please refer to the attached Excel file for calculations.

While CoP and CoA products have reasonable price buffers, CoH is currently sold under cost (as per absorption costing calculations)

1. **What is the margin of safety in units and as a percent of projected sale of units in the first year of operations (2020)? What are your views on the margin of safety so calculated?**

Given the current cost and price structure there appears to be a considerable margin of safety. However as stated earlier, all assumptions need to be vigorously tested before reaching such a conclusion

1. **What other factors could affect your projections and where should you be seeking data/information to alleviate this concern?**

* As stated in point 1, following were some of the critical assumptions. These assumptions need to be revisited and tested.
  + 20% growth uniform growth rate across market segments
  + Higher Sales price realization and constancy of variable and fixed costs
  + Constancy of Sales mix percentages
  + Fixed Costs details missing
* Different scenarios (Selling price/Costs) should be analyzed
* Possibility of innovations in existing smart watches to include these innovative features should be examined
* Porter’s five forces frame work should be applied to further examine competitiveness and profitability

1. **Will this investment meet Shrav’s ROI objective?**

Shrav’s ROI objective of 20% will be met from year 2 forward. See attached Excel for calculations

#### Teaching strategy

The case could be used after Chapter 9 coverage. (It is assumed that Chapter 1 is already covered) The suggested instructional approach is as below:

1. The case be assigned to student groups of 2 to 4 students
2. Students groups will meet to identify the case issues, analyse the case data, find alternative solutions, decide on the decision criteria, evaluate alternatives and choose an appropriate alternative.
3. If this case is intended as an assessment item, student groups may be asked to submit a case report with their solutions/recommendations before the next two steps.
4. In a larger group/class setting – one or two groups can present the case with critical reviews by one or two other groups
5. The instructor can debrief after such a presentation
6. If the case is not used as an assessment item, students may then be asked to submit an individual or group report.